

**PENNINGTON BIOMEDICAL RESEARCH**  
**FOUNDATION**



PENNINGTON  
BIOMEDICAL  
RESEARCH  
FOUNDATION

**2006 CONSOLIDATED FINANCIAL STATEMENTS**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 11/1/06



**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2006**

## TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| <u>Independent Auditors' Report</u>            | 1           |
| <u>Consolidated Financial Statements</u>       |             |
| Consolidated Statements of Financial Position  | 2           |
| Consolidated Statements of Activities          | 3 - 4       |
| Consolidated Statements of Functional Expenses | 5 - 6       |
| Consolidated Statements of Cash Flows          | 7           |
| Notes to Consolidated Financial Statements     | 8 - 14      |
| <u>Supplementary Information</u>               |             |
| Consolidating Statement of Financial Position  | 15          |
| Consolidating Statement of Activities          | 16          |



**Postlethwaite & Netterville**

A Professional Accounting Corporation  
Associated Offices in Principal Cities of the United States  
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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Pennington Biomedical Research Foundation  
Baton Rouge, Louisiana

We have audited the accompanying consolidated statements of financial position of the Pennington Biomedical Research Foundation and its subsidiary as of June 30, 2006 and 2005, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Pennington Biomedical Research Foundation and its subsidiary as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated statements of financial position taken as a whole. The consolidating information included in pages 15 and 16 is presented for purposes of additional analysis of the consolidated financial statements and is not a required part of the basic financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
September 25, 2006

**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2006 AND 2005**

|  | <b><u>ASSETS</u></b>        |                             |
|--|-----------------------------|-----------------------------|
|  | <b><u>2006</u></b>          | <b><u>2005</u></b>          |
| <b><u>ASSETS</u></b>   |                             |                             |
| Cash and cash equivalents  | \$ 7,979                    | \$ 10,142                   |
| Accounts receivable  | 59,487                      | 63,561                      |
| Promises to give   | 112,567                     | 3,024                       |
| Prepaid expenses   | 15,000                      | 12,910                      |
| Deferred tax asset   | 56,500                      | -                           |
| Office equipment (net of accumulated depreciation<br>of \$362 and \$90 respectively)       | 995                         | 1,267                       |
| Investments - unrestricted   | 1,167,047                   | 1,024,362                   |
| Investments - temporarily restricted, permanently restricted,<br>and funds held-in-custody | 17,390,082                  | 16,376,114                  |
| Investment in subsidiary   | 248,076                     | -                           |
| Annuity held by rabbi trust  | 798,303                     | 866,222                     |
| <b>Total assets</b>  | <b><u>\$ 19,856,036</u></b> | <b><u>\$ 18,357,602</u></b> |

**LIABILITIES AND NET ASSETS**

|   |                             |                             |
|---|-----------------------------|-----------------------------|
| <b><u>LIABILITIES</u></b>               |                             |                             |
| Accounts payable                        | \$ 257,136                  | \$ 387,826                  |
| Payroll and sales taxes payable         | 247                         | 1,027                       |
| Accrued expenses and other liabilities  | 14,218                      | 16,715                      |
| Deferred revenues and deposits          | 121,137                     | 58,630                      |
| Retirement obligation                   | 798,303                     | 866,222                     |
| Funds held-in-custody                   | 5,574,161                   | 4,883,120                   |
| <b>Total liabilities</b>                | <b><u>6,765,202</u></b>     | <b><u>6,213,540</u></b>     |
| <b><u>NET ASSETS</u></b>                |                             |                             |
| Unrestricted                            | 1,315,751                   | 820,980                     |
| Temporarily restricted                  | 4,911,062                   | 4,460,526                   |
| Permanently restricted                  | 6,864,021                   | 6,862,556                   |
| <b>Total net assets</b>                 | <b><u>13,090,834</u></b>    | <b><u>12,144,062</u></b>    |
| <b>Total liabilities and net assets</b> | <b><u>\$ 19,856,036</u></b> | <b><u>\$ 18,357,602</u></b> |

The accompanying notes are an integral part of these statements.

**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

2006

|  | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total                |
|--|---------------------|---------------------------|---------------------------|----------------------|
| <b><u>SUPPORT AND REVENUES</u></b>                             |                     |                           |                           |                      |
| Donations  | \$ 579,272          | \$ 818,456                | \$ 1,465                  | \$ 1,399,193         |
| Investment revenues  | 120,322             | 843,397                   | -                         | 963,719              |
| Research grants  | -                   | 50,279                    | -                         | 50,279               |
| Management fees  | -                   | -                         | -                         | -                    |
| Conference center rental revenues                              | -                   | -                         | -                         | -                    |
| Income (loss) from subsidiary                                  | 247,741             | -                         | -                         | 247,741              |
| Other  | 136,611             | -                         | -                         | 136,611              |
|  | <u>1,083,946</u>    | <u>1,712,132</u>          | <u>1,465</u>              | <u>2,797,543</u>     |
| Net assets released by satisfaction<br>of program restrictions | 1,261,596           | (1,261,596)               | -                         | -                    |
|  | <u>2,345,542</u>    | <u>450,536</u>            | <u>1,465</u>              | <u>2,797,543</u>     |
| <b><u>EXPENSES</u></b>   |                     |                           |                           |                      |
| Program services   | 1,291,538           | -                         | -                         | 1,291,538            |
| Management and general   | 179,788             | -                         | -                         | 179,788              |
| Development  | 379,445             | -                         | -                         | 379,445              |
| Conference center  | -                   | -                         | -                         | -                    |
|  | <u>1,850,771</u>    | <u>-</u>                  | <u>-</u>                  | <u>1,850,771</u>     |
| Forgiveness of debt  | -                   | -                         | -                         | -                    |
| <b><u>CHANGE IN NET ASSETS</u></b>                             | <u>494,771</u>      | <u>450,536</u>            | <u>1,465</u>              | <u>946,772</u>       |
| Net assets, beginning of period                                | <u>820,980</u>      | <u>4,460,526</u>          | <u>6,862,556</u>          | <u>12,144,062</u>    |
| <b><u>NET ASSETS, END OF PERIOD</u></b>                        | <u>\$ 1,315,751</u> | <u>\$ 4,911,062</u>       | <u>\$ 6,864,021</u>       | <u>\$ 13,090,834</u> |

The accompanying notes are an integral part of these statements.

2005

| Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Total         |
|--------------|---------------------------|---------------------------|---------------|
| \$ 108,271   | \$ 274,453                | \$ 218,650                | \$ 601,374    |
| 171,026      | 881,974                   | -                         | 1,053,000     |
| -            | 217,589                   | -                         | 217,589       |
| 850,000      | -                         | -                         | 850,000       |
| 364,004      | -                         | -                         | 364,004       |
| (79,243)     | -                         | -                         | (79,243)      |
| 62,676       | -                         | -                         | 62,676        |
| 1,476,734    | 1,374,016                 | 218,650                   | 3,069,400     |
| 1,317,093    | (1,317,093)               | -                         | -             |
| 2,793,827    | 56,923                    | 218,650                   | 3,069,400     |
| 1,071,788    | -                         | -                         | 1,071,788     |
| 168,440      | -                         | -                         | 168,440       |
| 313,352      | -                         | -                         | 313,352       |
| 1,106,842    | -                         | -                         | 1,106,842     |
| 2,660,422    | -                         | -                         | 2,660,422     |
| 274,083      | -                         | -                         | 274,083       |
| 407,488      | 56,923                    | 218,650                   | 683,061       |
| 413,492      | 4,403,603                 | 6,643,906                 | 11,461,001    |
| \$ 820,980   | \$ 4,460,526              | \$ 6,862,556              | \$ 12,144,062 |

**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

|                                 | 2006                |                                       |                   |                                  |                     |
|---------------------------------|---------------------|---------------------------------------|-------------------|----------------------------------|---------------------|
|                                 | Program<br>Services | Management<br>and General<br>Expenses | Development       | Conference<br>Center<br>Expenses | Total               |
| Bank charges                    | \$ 210              | \$ 5,160                              | \$ -              | \$ -                             | \$ 5,370            |
| Business development            | 7,107               | 4,040                                 | 88,687            | -                                | 99,834              |
| Contributions/Donations         | 227,000             | -                                     | -                 | -                                | 227,000             |
| Depreciation                    | -                   | 272                                   | -                 | -                                | 272                 |
| Dues and subscriptions          | 4,497               | 7,946                                 | 3,411             | -                                | 15,854              |
| Income tax expense              | -                   | (56,500)                              | -                 | -                                | (56,500)            |
| Insurance                       | -                   | 5,839                                 | -                 | -                                | 5,839               |
| Interest expense                | -                   | -                                     | -                 | -                                | -                   |
| Investment expense              | 179,550             | 4,019                                 | -                 | -                                | 183,569             |
| Lobbying/Governmental Relations | 2,175               | 18,175                                | -                 | -                                | 20,350              |
| Meetings and symposiums         | 102,717             | 1,718                                 | 952               | -                                | 105,387             |
| Miscellaneous                   | 3,043               | 5,507                                 | 39                | -                                | 8,589               |
| Payroll taxes and benefits      | 59,266              | 17,041                                | 27,688            | -                                | 103,995             |
| Postage                         | 303                 | 5,604                                 | 4,786             | -                                | 10,693              |
| Printing                        | 4,682               | 4,062                                 | 9,518             | -                                | 18,262              |
| Professional fees               | 82,989              | 19,674                                | 1,053             | -                                | 103,716             |
| Repairs and maintenance         | 35,619              | 4,826                                 | 3,334             | -                                | 43,779              |
| Research                        | 52,903              | -                                     | -                 | -                                | 52,903              |
| Salaries                        | 423,688             | 126,663                               | 213,823           | -                                | 764,174             |
| Sponsorships                    | 500                 | -                                     | 8,330             | -                                | 8,830               |
| Supplies                        | 56,238              | 3,616                                 | 1,122             | -                                | 60,976              |
| Telephone                       | 105                 | 1,410                                 | 941               | -                                | 2,456               |
| Training                        | 1,467               | -                                     | 9,921             | -                                | 11,388              |
| Travel                          | 47,479              | 716                                   | 5,840             | -                                | 54,035              |
| Utilities                       | -                   | -                                     | -                 | -                                | -                   |
|                                 | <u>\$ 1,291,538</u> | <u>\$ 179,788</u>                     | <u>\$ 379,445</u> | <u>\$ -</u>                      | <u>\$ 1,850,771</u> |

The accompanying notes are an integral part of these statements.



2005

| Program<br>Services | Management<br>and General<br>Expenses | Development       | Conference<br>Center<br>Expenses | Total               |
|---------------------|---------------------------------------|-------------------|----------------------------------|---------------------|
| \$ 5,725            | \$ 7,554                              | \$ -              | \$ -                             | \$ 13,279           |
| 31,461              | 10,267                                | 58,847            | -                                | 100,575             |
| -                   | -                                     | -                 | -                                | -                   |
| -                   | -                                     | 90                | -                                | 90                  |
| 2,569               | 6,495                                 | 6,035             | -                                | 15,099              |
| -                   | -                                     | -                 | -                                | -                   |
| -                   | 2,950                                 | -                 | 78,373                           | 81,323              |
| -                   | 1,083                                 | -                 | -                                | 1,083               |
| 98,926              | 50                                    | -                 | -                                | 98,976              |
| -                   | -                                     | -                 | -                                | -                   |
| 56,343              | 1,979                                 | 5,140             | 14                               | 63,476              |
| 5,269               | -                                     | 61                | 136                              | 5,466               |
| 70,622              | 15,211                                | 19,920            | 56,705                           | 162,458             |
| 470                 | 6,064                                 | 2,902             | 253                              | 9,689               |
| 2,903               | 3,474                                 | 2,484             | 67                               | 8,928               |
| 89,780              | 29,371                                | 22,035            | 18,176                           | 159,362             |
| 129,357             | 4,053                                 | 5,026             | 182,728                          | 321,164             |
| 73,173              | -                                     | -                 | -                                | 73,173              |
| 489,802             | 72,415                                | 176,342           | 299,229                          | 1,037,788           |
| 150                 | -                                     | 5,850             | -                                | 6,000               |
| 1,691               | 5,868                                 | 1,072             | 39,162                           | 47,793              |
| -                   | 1,210                                 | 867               | 21,570                           | 23,647              |
| -                   | -                                     | 200               | -                                | 200                 |
| 13,547              | 396                                   | 6,481             | 61                               | 20,485              |
| -                   | -                                     | -                 | 410,368                          | 410,368             |
| <u>\$ 1,071,788</u> | <u>\$ 168,440</u>                     | <u>\$ 313,352</u> | <u>\$ 1,106,842</u>              | <u>\$ 2,660,422</u> |

**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

|  | <u>2006</u>      | <u>2005</u>        |
|--|------------------|--------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>   |                  |                    |
| Change in net assets   | \$ 946,772       | \$ 683,061         |
| Adjustments to reconcile change in net assets<br>to net cash provided by (used in) operating activities: |                  |                    |
| (Gain) Loss from investment in subsidiary  | (247,741)        | 79,243             |
| Depreciation   | 272              | 90                 |
| Forgiveness of debt  | -                | (274,083)          |
| Realized gains on sales of investment securities   | (1,701,345)      | (623,170)          |
| Unrealized loss (gain) on investment securities  | 1,007,179        | (302,480)          |
| Permanently restricted contributions   | (1,465)          | (218,650)          |
| Changes in operating assets and liabilities:   |                  |                    |
| Accounts receivable  | 4,074            | 10,893             |
| Promises to give   | (109,543)        | (3,024)            |
| Prepaid expenses   | (2,090)          | 2,771              |
| Deferred tax asset   | (56,500)         | -                  |
| Payroll and sales taxes payable  | (780)            | 943                |
| Accounts payable   | (130,690)        | 93,042             |
| Accrued expenses and other liabilities   | (2,497)          | 11,901             |
| Deferred revenues and deposits   | 62,507           | 28,757             |
| Net cash used in operating activities  | <u>(231,847)</u> | <u>(510,706)</u>   |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>   |                  |                    |
| Purchases of equipment   | -                | (1,357)            |
| Proceeds from sales of investments   | 12,790,722       | 6,360,394          |
| Purchases of investments   | (13,253,544)     | (7,449,891)        |
| Investment in subsidiary   | -                | (50,000)           |
| Net cash used in investing activities  | <u>(462,822)</u> | <u>(1,140,854)</u> |
| <b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>   |                  |                    |
| Permanently restricted contributions   | 1,465            | 218,650            |
| Change in funds held-in-custody  | 691,041          | 1,428,992          |
| Net cash provided by financing activities  | <u>692,506</u>   | <u>1,647,642</u>   |
| Net decrease in cash and cash equivalents  | (2,163)          | (3,918)            |
| Cash and cash equivalents at beginning of period   | <u>10,142</u>    | <u>14,060</u>      |
| Cash and cash equivalents at end of period   | <u>\$ 7,979</u>  | <u>\$ 10,142</u>   |
| <b><u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u></b>   |                  |                    |
| Cash paid during the year for interest   | <u>\$ -</u>      | <u>\$ -</u>        |
| Cash paid during the year for income taxes   | <u>\$ -</u>      | <u>\$ -</u>        |

The accompanying notes are an integral part of these statements.

**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

Organization

The Pennington Biomedical Research Foundation (the Foundation) is a non-profit corporation which was organized to provide financial support for the Pennington Biomedical Research Center (the Center), a division of the Louisiana State University System (the University) operating in Baton Rouge, Louisiana. The major programs of the Center include nutrition research related to obesity, diabetes, cancer, heart disease, food science, behavior, and various educational programs.

During the year ended December 31, 1996, Pennington Discoveries, Inc. (PDI) was organized as a separate for-profit organization to commercialize and further develop technologies and other intellectual property originating from the Pennington Biomedical Research Center. In 2002, PDI entered into a partnership with NMCT USA, Inc. to form Pennington Management of Clinical Trials, LLC (PMCT). PDI is a 20% owner of PMCT.

Consolidation

The Foundation's consolidated financial statements include the accounts of Pennington Discoveries, Inc. a wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting

The financial statement has been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Income Taxes

The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code.

Pennington Discoveries, Inc. is a for-profit organization and is required to pay income taxes as determined by the Internal Revenue Code. As of June 30, 2006, Pennington Discoveries, Inc. had a net operating loss carry forward; therefore, there was no income tax expense recorded in the accompanying consolidated financial statements.

At June 30, 2006, the Foundation's subsidiary, Pennington Discoveries had a net operating loss (NOL) carry forward of approximately \$200,000 expiring in the years 2016 – 2025 from its operations. For the year ended June 30, 2006, a deferred tax asset of \$56,500 has been established relating to the NOL. Deferred tax assets are subject to a valuation allowance if their realization is less than fifty percent probable.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies (continued)

Deferred Revenues and Deposits

Deferred revenues and deposits include sponsorship revenues for various fundraising events, such as Soaring to New Heights, which have been received in advance of the events.

Investments

Investments consist of United States Government Agency obligations, mortgage and asset-backed securities, equities, money market funds, hedge funds, REITs and cash maintained in trust accounts. All investments owned by the Foundation are stated at fair value based on quoted market prices and other observable market data. Realized gains and losses on dispositions are based on the net proceeds and the amortized cost of the securities sold, using the specific identification method, and are classified as temporarily restricted or unrestricted based on donor intent. These realized gains and losses flow through the Foundation's yearly activities. Investments received as gifts are initially recorded at fair value at the date of donation.

Cash Flow Statements

For purposes of the cash flow statements, cash and cash equivalents includes operating funds on deposit at various financial institutions.

Office Equipment

Property and equipment are stated at historical cost. Additions, renewals, and betterments that extend the lives of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Provisions for depreciation are computed using accelerated methods over the estimated useful lives.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Promises to Give

Unconditional promises to give are recognized as revenue in the period the promise is received. Promises to give are recorded at their realizable value if they are expected to be collected in one year or at fair value if they are expected to be collected in more than one year.

Statements of Functional Expenses

The costs of providing the various programs and other activities of the Foundation have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting benefits based on management's estimates.

**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk

The Foundation maintains its cash in bank deposit accounts at various financial institutions. The balances, at times, may exceed federally insured limits. Management believes the credit risk associated with these deposits is minimal. At June 30, 2006 and June 30, 2005, respectively, cash in excess of FDIC insurance limits totaled approximately \$217,000 and \$297,000.

The Foundation's investments are secured by SIPC (Securities Investor Protection Corporation) for up to \$60 million through insurance purchased by the investment company. However, the \$60 million of protection and SIPC does not insure the quality of investments or protect against losses from fluctuating market values.

2. Retirement Contributions and Expense

The Foundation makes an annual contribution to the 403(b) retirement plan for eligible employees. The amount of the contribution is equal to 100% of an eligible employees' contribution up to 5% of annual compensation. Eligibility requirements are attainment of age 21 and full-time employment for one year. Contributions for the year ended June 30, 2006 and 2005, totaled approximately \$14,000 and \$15,000, respectively.

3. Investments

The investments of the Endowed Professorship Programs and the Endowed Chairs for Eminent Scholars Program are maintained and managed in brokerage accounts in compliance with the Board of Regent's investment policy.

Investments at June 30, 2006 and 2005, were comprised of the following:

|                              | <u>2006</u>          | <u>2005</u>          |
|------------------------------|----------------------|----------------------|
| U.S. Government obligations  | \$ 2,653,986         | \$ 1,209,590         |
| Corporate stocks             | 5,392,137            | 6,986,364            |
| Corporate bonds              | 1,722,559            | 914,869              |
| Fixed income securities      | 2,055,876            | 4,599,486            |
| Hedge funds                  | 3,122,560            | 1,497,508            |
| Real estate investment trust | 1,315,940            | 8,275                |
| Money market funds           | <u>2,294,071</u>     | <u>2,184,384</u>     |
|                              | <u>\$ 18,557,129</u> | <u>\$ 17,400,476</u> |

**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

3. Investments (continued)

Investment earnings were comprised of the following for the year ended June 30, 2006 and 2005:

|  | <u>2006</u>       | <u>2005</u>         |
|--|-------------------|---------------------|
| Interest income                        | \$ 84,757         | \$ 79,191           |
| Dividends                              | 388,332           | 277,151             |
| Realized gains on sales of investments | 1,701,345         | 623,170             |
| Unrealized (loss) gains on investments | ( 1,007,179)      | 302,480             |
| Earnings of funds held in custody      | ( 203,536)        | ( 228,992)          |
|  | <u>\$ 963,719</u> | <u>\$ 1,053,000</u> |

4. Endowment Enhancement

In order to comply with Act Numbers 909 and 910 of the 1992 Louisiana Legislative Session regarding depositories for University Endowment Trust Funds, a portion of the endowment income is added to the endowment principal. The enhancement is calculated as the lesser of 5% of the market value of program assets or 65% of endowment earnings, which is calculated annually. Funds available for expenditure that were not spent in the current year may be carried forward to subsequent years with the approval of the Board of Regents, provided that the Foundation has documented the reason that the funds were not expended in the year allocated and has developed a plan showing the proposed uses of the funds in future years. For the fiscal years ended June 30, 2006 and 2005, the Foundation had no funds to carryforward to subsequent years.

5. Funds Held in Custody and Permanently Restricted Net Assets

Included in investments at June 30, 2006 and 2005, were funds held in custody at local banks, which represent funds contributed to the Foundation by private donors and matching funds received from the State of Louisiana. The Endowed Chairs for Eminent Scholars Program requires a \$600,000 private donation and a matching \$400,000 gift from the State of Louisiana, making a total endowment of \$1,000,000 per program. The Eminent Scholars Program requires a \$60,000 private donation and a \$40,000 matching gift from the State of Louisiana, making a total endowment of \$100,000. Total funds held in escrow are as follows:

|  | <u>2006</u>          | <u>2005</u>          |
|--|----------------------|----------------------|
| Private donations (permanently restricted) | \$ 6,864,021         | \$ 6,862,556         |
| State Matching Funds                       | 5,486,656            | 4,883,120            |
| Other                                      | 87,505               | -                    |
|  | <u>\$ 12,438,182</u> | <u>\$ 11,745,676</u> |

**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**6. Management Agreement**

During 2005, the Foundation was party to a memorandum of understanding with the Pennington Medical Foundation (Medical Foundation) for an unspecified period of time. In accordance with the terms of the memorandum, the Foundation was responsible for the maintenance and operation of the Claude B. Pennington Conference and Education Center, the Pennington Residence Center, the Pennington Health and Fitness Center, and provides the Medical Foundation with professional and administrative services. The Medical Foundation reimburses the Foundation for the above mentioned services and allows the Foundation to retain the revenues generated from the conference center management operations. A management fee of \$850,000 per year was paid to the Foundation in quarterly installments for the year ended June 30, 2005.

Effective June 30, 2005, the Foundation decided to close the conference center. In conjunction with this closing, the management fee of \$850,000 is no longer paid, and the associated expenses have ceased.

**7. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2006 and 2005 were available for specific nutritional research programs and other nutritional research programs being conducted at the Pennington Biomedical Research Center.

|   | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|
| Research Development                    | \$ 4,769,762        | \$ 4,285,603        |
| Grant Programs                          | 51,717              | 140,280             |
| Executive Development                   | <u>89,583</u>       | <u>34,643</u>       |
| Total Temporarily Restricted Net Assets | <u>\$ 4,911,062</u> | <u>\$ 4,460,526</u> |

**8. Net Assets Released From Restrictions**

Net assets released from donor restrictions for incurring program related expenses satisfying the restricted purposes for the year ended June 30, 2006 and 2005, were as follows:

|                             | <u>2006</u>         | <u>2005</u>         |
|-----------------------------|---------------------|---------------------|
| Research Development        | \$ 973,692          | \$ 720,408          |
| Grant Programs              | 92,845              | 410,354             |
| Executive Development       | <u>195,059</u>      | <u>186,331</u>      |
| Total Restrictions Released | <u>\$ 1,261,596</u> | <u>\$ 1,317,093</u> |

**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

9. Investment in Joint Venture and Note Payable

Effective April 5, 2002, Pennington Discoveries, Inc. (PDI) became a member of Pennington Management of Clinical Trials, L.L.C. (Joint Venture). This limited liability company was formed for the purpose of conducting, managing and administering clinical trials in nutrition studies, studies pertaining to weight characteristics, and studies in the field of obesity and its associated diseases. PDI has a 20% interest in the Joint Venture and the other partner has an 80% interest. PDI and the Foundation are not obligated to fund any losses that exceed its cash contributions to the Joint Venture. For the year ended June 30, 2005, the loss exceeded its investment contribution and the full 20% of the loss was not recorded. However, for the year ended June 30, 2006 net income was generated by the Joint Venture; therefore, the 20% of net income was recorded in the accompanying consolidated financial statements.

In June 2002, the Foundation borrowed \$200,000 from the Medical Foundation in order to make its initial capital contributions to the Joint Venture, and borrowed an additional \$60,000 during the year ended June 30, 2004, to make additional capital contributions. The loan was originally due on June 30, 2008. The Medical Foundation forgave the principal balance and accrued interest of approximately \$274,000 during the year ended June 30, 2005.

Pertinent financial information for the Joint Venture as of June 30, 2006 and 2005 is as follows (unaudited):

| <u>Balance sheet</u>                                  | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|
| <u>Assets:</u>  |                     |                     |
| Cash  | \$ 162,403          | \$ 52,485           |
| Accounts receivable, net                              | 1,149,160           | 36,436              |
| Costs and estimated earnings<br>in excess of billings | 998,637             | 262,697             |
| Other current assets                                  | 8,279               | 13,507              |
| Property and equipment, net                           | 61,218              | 66,565              |
| Total assets  | <u>\$ 2,379,697</u> | <u>\$ 431,690</u>   |
| <u>Liabilities and members' equity:</u>               |                     |                     |
| Accounts payable and other liabilities                | \$ 1,139,319        | \$ 691,457          |
| Members' capital                                      | 1,240,378           | ( 259,767)          |
| Total liabilities and members' capital                | <u>\$ 2,379,697</u> | <u>\$ 431,690</u>   |
| <u>Income statement</u>                               |                     |                     |
| Contract revenue and other income                     | \$ 2,988,289        | \$ 619,881          |
| Cost of revenues                                      | ( 915,279)          | ( 780,229)          |
| Costs and expenses                                    | ( 572,865)          | ( 475,375)          |
| Net income (loss)                                     | <u>\$ 1,500,145</u> | <u>(\$ 635,723)</u> |



**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

10. Commitments

The Foundation purchased an annuity to fund the retirement obligation of the former director of the Center. The annuity's value and corresponding retirement obligation is approximately \$798,000 at June 30, 2006 and \$866,000 at June 30, 2005.

The Foundation has committed to contributing approximately \$10 million, in operating support to the Pennington Biomedical Research Center over the next five years, as part of the Center's Vision 2010 strategic plan.

11. Related Party Transactions

The Pennington Biomedical Research Foundation provides accounting services and administrative support to Pennington Medical Foundation for a monthly fee of \$3,987. Prior to January 2006, the monthly fee was \$3,833, and prior to February 2005, the monthly fee was \$2,500. The Pennington Medical Foundation provides office space and occupancy costs to the Research Foundation for its use at no explicit charge. Both parties consider the value received to be commensurate with the values provided by each.

**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2006**

**ASSETS**

|  | Pennington Biomedical<br>Research<br>Foundation | Pennington<br>Discoveries, Inc. | Eliminations        | Consolidated         |
|--|---|---------------------------------|---------------------|----------------------|
| <b><u>ASSETS</u></b>   |   |                                 |                     |                      |
| Cash and cash equivalents  | \$ 6,685  | \$ 1,294                        | \$ -                | \$ 7,979             |
| Accounts receivable  | 449,490   | -                               | (390,003)           | 59,487               |
| Promises to give   | 112,567   | -                               | -                   | 112,567              |
| Prepaid expenses   | 15,000  | -                               | -                   | 15,000               |
| Deferred tax asset   | -   | 56,500                          | -                   | 56,500               |
| Office equipment (net of accumulated depreciation of \$362)                                | 995   | -                               | -                   | 995                  |
| Investments - unrestricted   | 1,167,047                                       | -                               | -                   | 1,167,047            |
| Investments - temporarily restricted, permanently restricted,<br>and funds held-in-custody | 17,390,082                                      | -                               | -                   | 17,390,082           |
| Investment in subsidiary   | (140,647)                                       | 248,076                         | 140,647             | 248,076              |
| Annuity held by rabbi trust  | 798,303   | -                               | -                   | 798,303              |
| <b>Total assets</b>  | <b>\$ 19,799,522</b>                            | <b>\$ 305,870</b>               | <b>\$ (249,356)</b> | <b>\$ 19,856,036</b> |

**LIABILITIES AND NET ASSETS**

|   |                      |                   |                     |                      |
|---|----------------------|-------------------|---------------------|----------------------|
| <b><u>LIABILITIES</u></b>               |                      |                   |                     |                      |
| Accounts payable                        | \$ 257,122           | \$ 390,017        | \$ (390,003)        | \$ 257,136           |
| Payroll and sales taxes payable         | 247                  | -                 | -                   | 247                  |
| Accrued expenses and other liabilities  | 14,218               | -                 | -                   | 14,218               |
| Deferred revenues and deposits          | 121,137              | -                 | -                   | 121,137              |
| Retirement obligation                   | 798,303              | -                 | -                   | 798,303              |
| Funds held-in-custody                   | 5,574,161            | -                 | -                   | 5,574,161            |
| <b>Total liabilities</b>                | <b>6,765,188</b>     | <b>390,017</b>    | <b>(390,003)</b>    | <b>6,765,202</b>     |
| <b><u>NET ASSETS</u></b>                |                      |                   |                     |                      |
| Unrestricted                            | 1,259,251            | (84,147)          | 140,647             | 1,315,751            |
| Temporarily restricted                  | 4,911,062            | -                 | -                   | 4,911,062            |
| Permanently restricted                  | 6,864,021            | -                 | -                   | 6,864,021            |
| <b>Total net assets</b>                 | <b>13,034,334</b>    | <b>(84,147)</b>   | <b>140,647</b>      | <b>13,090,834</b>    |
| <b>Total liabilities and net assets</b> | <b>\$ 19,799,522</b> | <b>\$ 305,870</b> | <b>\$ (249,356)</b> | <b>\$ 19,856,036</b> |

**PENNINGTON BIOMEDICAL RESEARCH FOUNDATION**  
**BATON ROUGE, LOUISIANA**

**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

|   | Pennington Biomedical<br>Research<br>Foundation | Pennington<br>Discoveries, Inc. | Eliminations      | Consolidated         |
|---|---|---------------------------------|-------------------|----------------------|
| <b><u>SUPPORT AND REVENUES</u></b>      |   |                                 |                   |                      |
| Donations                               | \$ 1,399,193                                    | \$ -                            | \$ -              | \$ 1,399,193         |
| Investment income                       | 963,719   | -                               | -                 | 963,719              |
| Research grants                         | 50,279  | -                               | -                 | 50,279               |
| Income (loss) from subsidiary           | 247,741   | 247,741                         | (247,741)         | 247,741              |
| Other                                   | 136,611   | -                               | -                 | 136,611              |
|   | <u>2,797,543</u>                                | <u>247,741</u>                  | <u>(247,741)</u>  | <u>2,797,543</u>     |
| <b><u>EXPENSES</u></b>                  |   |                                 |                   |                      |
| Program services                        | 1,291,538                                       | -                               | -                 | 1,291,538            |
| Management and general                  | 236,288   | (56,500)                        | -                 | 179,788              |
| Development                             | 379,445   | -                               | -                 | 379,445              |
|   | <u>1,907,271</u>                                | <u>(56,500)</u>                 | <u>-</u>          | <u>1,850,771</u>     |
| <b><u>CHANGE IN NET ASSETS</u></b>      | 890,272   | 304,241                         | (247,741)         | 946,772              |
| Net assets, beginning of period         | <u>12,144,062</u>                               | <u>(388,388)</u>                | <u>388,388</u>    | <u>12,144,062</u>    |
| <b><u>NET ASSETS, END OF PERIOD</u></b> | <u>\$ 13,034,334</u>                            | <u>\$ (84,147)</u>              | <u>\$ 140,647</u> | <u>\$ 13,090,834</u> |